[JOINT COMMITTEE PRINT]

# ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1986-1990

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PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

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## INTRODUCTION

This report [1] on tax expenditures for fiscal years 1986–1990 is prepared by the staff of the Joint Committee on Taxation for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted by the Joint Committee on Taxation to the House and Senate Committees on the Budget.

As in the case of earlier reports,[2] the estimates in this report were prepared with the cooperation of the staff of the Office of Tax Analysis in the Treasury Department. The first two reports were prepared at the request of the conferees on the Revenue Act of 1971 that tax expenditure data be submitted regularly to Congress by the Joint Committee staff. The last report was published in November 1984.

On February 4, 1985, the Administration published its estimates of tax expenditures for fiscal years 1984-1986 in Special Analysis G of the Budget for fiscal year 1986.[3] The tax expenditure items included in this pamphlet and in Special Analysis G overlap considerably; differences are discussed in Part II under the heading "Comparisons with Special Analysis G." The tax expenditure report by the Congressional Budget Office (CBO), which usually is published early in the Fall, generally contains the same listings as this publication.

The staff of the Joint Committee has made its estimates (as shown in table 1) in terms of the provisions in tax law as enacted through December 31, 1984, under the assumption that the expiration dates which apply to some provisions would not be extended or otherwise modified. Expired provisions are not listed if their effect on revenue results only from taxpayer activity in prior years.

Part I of this report contains a discussion of the concept of tax expenditures, and it is followed in Part II by a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1986-1990, under tax law enacted through December 31, 1984, are presented in table 1 in Part III. Table 2 shows the distribution of tax returns by expanded income class, and table 3 presents distributions of selected individual tax expenditure items by expanded income class.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 1986–1990* (JCS–8–85), April 12, 1985.

[2] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1, 1973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, 1980, March 16, 1981, March 8, 1982, March 7, 1983, and November 9, 1984.

[3] "*Tax Expenditures*," Special Analysis G, *The Budget of the United States Government for Fiscal Year 1986*.

# I. THE CONCEPT OF TAX EXPENDITURES

## Overview

Tax expenditure estimates measure the decrease in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives to the private sector or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. The term tax expenditure is derived from the assumption that the goals of these favorable tax provisions could be accomplished by replacing them with direct expenditure programs. Tax expenditures, in this view, are analogous to those direct expenditures which have no program spending limits, and which are available as entitlements to individuals and corporations who meet the criteria established for the programs. As in an entitlement program, any taxpayer who meets the criteria specified in the Internal Revenue Code may use the provision without any further action by the Federal Government. Tax expenditure provisions, like all tax provisions but unlike direct spending programs, are administered by the Internal Revenue Service.

From the viewpoint of the budget process, fiscal policy and the allocation of resources, entitlements that provide outlays or revenue losses with no annual limits on their budget effects restrict the scope of adjustments in public policy that can be made currently. Initially, the Joint Committee published the pamphlets on tax expenditures in order to provide Congress with some of the information it would need to select between a tax or an outlay approach to a given goal of public policy. Now, however, this information also is provided in the Administration's budget which contains a list of the tax expenditures in Special Analysis G that are grouped by budget outlay function, and each functional group is part of the discussion of the President's proposals for that function. In addition, Special Analysis G of the budget contains an essay on tax expenditures and presents two tables related to the subject—estimates of the outlay equivalent of, and the revenue loss from, each tax expenditure. The House and Senate Budget Committees sometimes publish tax expenditure revenue loss estimates in their reports that accompany budget resolutions reported to their respective houses. The Congressional Budget Office annually has published a report on tax expenditures which includes descriptive and analytical material in addition to revenue loss estimates.

In this report, only revenue loss estimates are presented, since this conforms with the requirement in the Congressional Budget Act that the Joint Committee is to report revenue losses from tax expenditures. The outlay equivalent of a tax expenditure, as reported in Special Analysis G, is the size of the outlay which would be

needed to produce the after-tax equivalent of the benefits obtained from the tax expenditure. Often the outlay equivalent is greater than the revenue loss, because in many cases outlays would have to be included in the taxable income of the beneficiaries of the program. The outlay equivalent measure is useful in comparing the cost of alternative outlay and tax approaches to carry out specific public policy programs.

In this report, the staff followed the definition of tax expenditures that appears in the Congressional Budget Act: ". . . those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." The legislative history of the Act indicates that tax expenditures are to be defined with reference to a "normal" tax structure, and it also refers to the first two tax expenditure pamphlets prepared by the Joint Committee staff in which the "normal" tax structure was used as the reference point. Under the individual income tax, this normal tax structure includes a single personal exemption for each taxpayer and one for each dependent; the zero bracket amount, which serves as a general minimum standard deduction for all taxpayers; the graduated tax rate structure; the exclusions for various types of imputed income, such as the rental value of owner-occupied homes; and deductions for costs incurred in producing net income, e.g., investment expenses or the cost of the tools that a mechanic purchases for use on his job. Analogously, the normal tax structure of the corporation income tax includes deductions for the costs incurred in producing income, including depreciation. However, it does not include the graduated tax rate structure on the grounds that those provisions are intended as a way of providing tax relief to small corporations.

The staff acknowledges that its concept of a normal tax structure may err on the side of being too narrow and that its definition of tax expenditures may err on the side of being too broad. The staff's approach traditionally has been to list any item as a tax expenditure for which there is a reasonable basis for such classification and a revenue loss above a *de minimis* amount. In this context, more than a *de minimis* revenue amount means a revenue loss of at least $10 million in at least one of the five years, 1986–1990. The staff emphasizes, however, that in the process of listing tax expenditure items, no judgment is made, nor any inference intended, about the desirability of any special provision as public policy, or about the effectiveness of the tax approach relative to other methods available to the Federal Government for achieving particular public policy goals.

As defined in the Congressional Budget Act, the concept of tax expenditure refers to the corporation and individual income taxes. Other parts of the Internal Revenue Code—excise taxes, employment taxes, estate and gift taxes—also have exceptions, exclusions, refunds and credits, such as gasoline tax exemptions for nonhighway uses, which are not included in this report because they are not parts of the income tax.

**Individual income tax**

The staff does not include as tax expenditures either the zero bracket amount or the personal exemption for the taxpayer and dependents because Congress believes these amounts approximate the level of income below which it would be difficult for an individual or a family to obtain minimal amounts of food, clothing and shelter. Thus, itemized deductions are classified as tax expenditures only to the extent they exceed the zero bracket amount.

Deductions for costs incurred in producing income are considered part of the normal tax structure and, therefore, are not listed as tax expenditures. These include deductions for moving expenses, employee business expenses, investment expenses, and business-related travel expenses. Itemized deductions for nonmortgage interest are listed as tax expenditures only to the extent that those deductions exceed investment income. This treatment of interest represents a change from years prior to 1983, when a separate tax expenditure was listed for consumer interest, defined as interest incurred on installment loans, credit card loans and other consumer loans. Because money is fungible, the staff believes that it is improper to classify interest based solely on the character of the lender or the type of loan; therefore, this report, in effect, assumes that all nonmortgage interest is investment interest (and, hence, not a tax expenditure) to the extent it does not exceed investment income and that all remaining itemized interest is classified as a tax expenditure.

The provisions for capital gains treatment on incentive stock options, which were enacted in the Economic Recovery Tax Act of 1981, are not treated as a tax expenditure. Even though these represent deviations from a normal individual income tax structure, the revenue loss from capital gains treatment is offset by the revenue gain resulting from the fact that the employer loses its deduction when employee compensation is paid in the form of incentive stock options.

The failure to tax imputed income received by individuals from the services of their own durable assets is not treated as a tax expenditure. Such imputations are often considered as income under other concepts of income, such as that used in measuring gross national product. However, measurement of the imputed income for income tax purposes would present severe administrative problems, and its exclusion from taxable income is as much an administrative necessity as a specific incentive to encourage certain kinds of consumption. The imputed income from an owner-occupied home is the most prominent of these omitted items; among the others are the income that could be imputed to household furniture and appliances, books, art collections, and automobiles. If all the imputed income items were included in adjusted gross income, however, it would be proper to include all interest deductions as part of the normal tax structure, since interest deductions would be allowable as a cost of producing imputed income. Thus, in effect, the staff's listing of certain interest deductions as a tax expenditure is a substitute for not listing the exclusion of imputed income on durable assets.

*Comparison with Special Analysis G.*—The major differences between the tax expenditure lists in Special Analysis G, table G–2, and the list in table 1 of this publication are the additional items added by the staff in this publication (see discussion next page). With regard to the other listed items, the Joint Committee report lists as a tax expenditure the deductibility of patronage dividends and certain other items of cooperatives; this item appears in the Agriculture function.

The staff analysis also differs from Special Analysis G in its treatment of capital gains at death. The estimate in this report is computed as the tax that would be paid if the excess of the fair market value of property owned by decedents over the purchase price were included in the decedent's taxable income. The estimate in Special Analysis G is the tax that would be paid, if the heir carried over the current basis of the decedent.

**Business income taxation**

For business income, taxed under both the individual and corporate income taxes, the most difficult issues in defining tax expenditures relate to capital costs, which are costs not properly allocable to income earned in a single year. The staff assumes, for example, that the normal tax structure would permit cost recovery deductions on equipment under some form of accelerated depreciation over the estimated useful life of the asset. For structures, it is assumed that the normal tax structure would involve straight-line depreciation over the estimated useful life. The tax law applicable to pre-1981 depreciable equipment permitted taxpayers to shorten tax lives by up to 20 percent for purposes of computing depreciation deductions under the Asset Depreciation Range (ADR) system. This ADR variance is considered a tax expenditure. Providing investment incentives through allowing investors to depreciate property over periods shorter than the expected useful lives was carried further with enactment of the Accelerated Cost Recovery System (ACRS). Under this provision, statutory cost recovery periods were established for both equipment and structures, generally without regard to the expected useful life of the property. Shortened useful lives under ACRS and ADR are treated as a tax expenditure in this report to the extent that these systems provide cost recovery deductions in excess of what is assumed to be the normal tax structure.

One of the problems with the definition of the depreciation tax expenditure is that it neglects the effect of inflation in eroding the real value of depreciation deductions. Even with accelerated depreciation, taxpayers will not always receive deductions whose real value corresponds to the amount they originally paid for the asset. A similar valuation problem arises in the definition of the tax expenditure for capital gains.

The foreign tax credit is not classified here as a tax expenditure because it is considered a way of taking into account the interrelationship of domestic and foreign tax systems and avoiding double taxation. In addition, this analysis does not attempt to go behind the treatment by U.S. taxpayers of payments to foreign governments as income taxes, i.e., it does not attempt to determine whether such payments claimed as foreign tax credits satisfy the requirements of creditability.

***Comparison with Special Analysis G.***—Besides the additional tax expenditures (discussed in the next paragraph), the staff list carries two business items that have not been included among the items in table G-2 because of different interpretations of how to draw the boundaries. These two items are (1) deductibility of patronage dividends and certain other items of cooperatives and (2) exclusion of payments in aid of construction of water, sewage, gas, and electric utilities. Amortizing removal costs of architectural barriers to the handicapped has been returned to the list this year because it was reenacted in 1984 after having expired before then.

**Additional tax expenditure estimates**

Estimates of additional tax expenditure items are provided in this report. These items have appeared frequently on the lists of tax provisions that could be repealed in order to broaden the tax base and simplify the Internal Revenue Code. Some of these items appear on the list of tax provisions that have been recommended for repeal under the principles employed to develop the Treasury Department's tax simplification and reform proposals.[1] Some of these provisions also have appeared on the lists of items proposed to be repealed in tax simplification and reform legislation introduced by Members of Congress.

[1] Office of the Secretary of the Treasury, *Tax Reform for Fairness, Simplification and Economic Growth:* The Treasury Department Report to the President, vols. 1 and 2, Washington, D.C., Department of the Treasury, November 1984.

## II. MEASUREMENT OF TAX EXPENDITURES

Estimates of tax expenditures as revenue losses are subject to important limitations. Each tax expenditure is measured in isolation. The amount of a deduction is added back into taxable income, which raises the level. The difference between the estimates of tax liabilities under present law, which provides for the deduction, and the higher level of tax liabilities under the assumption that the provision does not exist, is the amount of the tax expenditure. For this computation, it is assumed that nothing else changes.

If two or more items were to be eliminated simultaneously, the result of the combination of changes might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This means that the addition of the amounts of various tax expenditure items is of quite limited usefulness, and this is why annual totals for all tax expenditures in table 1 are shown only as an addendum to table 1.

If a tax expenditure item were to be eliminated, it is possible that Congress would deal with the underlying reason for enacting the tax expenditure in another way, rather than simply terminating federal assistance of any kind. To the extent that a replacement program would be adopted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. The nature of any alternative program cannot be anticipated: whether it would involve direct expenditures, direct loans, or loan guarantees; or whether it would involve a different form of a tax expenditure, or a general reduction in tax rates. If any of these provisions would be repealed, adjustments might be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy, but the estimates of tax expenditures do not anticipate such policy responses.

Year-to-year differences in the estimates for each tax expenditure may be explained by changes in tax law, e.g., the reduction in marginal tax rates and the indexing provision enacted in the Economic Recovery Tax Act of 1981, which affect the estimates for successive years. Some of the estimates in this tax expenditure report may differ from estimates made in previous years because of inflation, changed economic conditions, the availability of better data, and improved estimating techniques. Similar differences also occur in the budget estimates for direct outlays.

## III. TAX EXPENDITURE ESTIMATES

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, the tax expenditures are grouped in table 1 in the same functional categories as outlays in the federal budget. Estimates are shown separately for individuals and corporations. Some tax expenditures do not fit clearly into any of the budget functional categories, and they have been placed in the functional category which is the most appropriate.

Several of the tax expenditure items involve relatively small revenue loss each, and those estimates are indicated in table 1 by footnote 1. For each of the items, the footnote means that the revenue loss is an amount less than $50 million a year.

Table 2 presents tax return information for each of 9 expanded income classes on the number of all returns and taxable returns filed, the amount of all returns and taxable returns with itemized deductions, and for each class the amount of tax liability.

Table 3 provides estimates by expanded income class for some of the tax expenditures which affect individual taxpayers. Not all tax expenditures which affect individuals are shown in this table because of the difficulty in making reliable estimates of the distribution of items which do not appear on tax returns under present law. Tables 1, 2 and 3 assume the tax laws as enacted through December 31, 1984.

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## Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1986–1990

[Billions of dollars]

| Function | Corporations | | | | | Individuals | | | | | Total 1986–90 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1986 | 1987 | 1988 | 1989 | 1990 | |
| **National defense** | | | | | | | | | | | |
| Exclusion of benefits and allowances to Armed Forces personnel | | | | | | 2.2 | 2.4 | 2.5 | 2.6 | 2.7 | 12.4 |
| Exclusion of military disability pensions | | | | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | 0.7 |
| **International affairs** | | | | | | | | | | | |
| Exclusion of income earned abroad by U.S. citizens | | | | | | 1.5 | 1.6 | 1.6 | 1.7 | 1.8 | 8.2 |
| Exclusion of income of foreign sales corporations (FSCs) | 1.0 | 1.1 | 1.2 | 1.2 | 1.3 | | | | | | 5.8 |
| Deferral of income of controlled foreign corporations | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | | | | | | 2.3 |
| Exclusion of certain allowances for Federal employees abroad | | | | | | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.0 |
| **General science, space and technology** | | | | | | | | | | | |
| Expensing of research and development expenditures | 3.7 | 4.0 | 4.2 | 4.4 | 4.7 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 22.0 |
| Credit for increasing research activities | 1.1 | 0.5 | 0.3 | 0.2 | (1) | (1) | (1) | (1) | (1) | (1) | 2.1 |
| Suspension of regulations relating to allocation under sec. 861 of research and experimental expenditures | 0.1 | | | | | | | | | | 0.1 |

Footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1986–1990—Continued

[Billions of dollars]

| Function | Corporations | | | | | Individuals | | | | | Total 1986–90 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1986 | 1987 | 1988 | 1989 | 1990 | |
| **Energy** | | | | | | | | | | | |
| Expensing of exploration and development costs: | | | | | | | | | | | |
| Oil and gas | 1.1 | 1.3 | 1.5 | 1.6 | 1.7 | 1.2 | 1.2 | 1.3 | 1.4 | 1.5 | 13.8 |
| Other fuels | (1) | (1) | (1) | 0.1 | 0.1 | (1) | (1) | (1) | (1) | (1) | 0.2 |
| Excess of percentage over cost depletion: | | | | | | | | | | | |
| Oil and gas | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 1.0 | 1.0 | 1.0 | 1.1 | 1.1 | 6.9 |
| Other fuels | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | (1) | (1) | (1) | (1) | (1) | 1.9 |
| Capital gains treatment of royalties from coal | (1) | (1) | (1) | (1) | (1) | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.8 |
| Alternative fuel production credit | (1) | (1) | (1) | (1) | (1) | ..... | ..... | ..... | ..... | ..... | 0.1 |
| Alcohol fuel credit [2] | (1) | (1) | (1) | 0.2 | 0.3 | (1) | (1) | (1) | (1) | (1) | 0.6 |
| Exclusion of interest on State and local government industrial development bonds for energy production facilities | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 1.3 |
| Residential energy credits: | | | | | | | | | | | |
| Supply incentives | ..... | ..... | ..... | ..... | ..... | 0.6 | 0.1 | ..... | ..... | ..... | 0.7 |
| Conservation incentives | ..... | ..... | ..... | ..... | ..... | 0.3 | ..... | ..... | ..... | ..... | 0.3 |
| Alternative energy, conservation and new technology credits: | | | | | | | | | | | |
| Supply incentives | 0.1 | (1) | (1) | (1) | (1) | (1) | (1) | (1) | ..... | ..... | 0.2 |
| Conservation incentives | (1) | (1) | (1) | ..... | ..... | (1) | (1) | (1) | ..... | ..... | (1) |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Natural resources and environment** | | | | | | | | | | | |
| Expensing of exploration and development costs, nonfuel minerals | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | (1) | (1) | (1) | (1) | (1) | 0.5 |
| Excess of percentage over cost depletion, nonfuel materials | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | (1) | (1) | (1) | (1) | (1) | 2.0 |
| Capital gains treatment of certain timber income | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 4.3 |
| Investment credit and 7-year amortization for reforestation expenditures | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | (1) | (1) | (1) | (1) | (1) | 0.5 |
| Capital gains treatment of iron ore | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | 0.1 |
| Exclusion of interest on State and local government pollution control, sewage, and waste disposal facilities bonds | 1.4 | 1.6 | 1.7 | 1.8 | 2.0 | 0.7 | 0.8 | 0.8 | 0.9 | 1.0 | 12.6 |
| Exclusion of payment in aid of construction of water, sewage, gas, and electric utilities | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | ..... | ..... | ..... | ..... | ..... | 0.4 |
| Tax incentives for preservation of historic structures | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 1.2 | 1.4 | 1.5 | 1.7 | 1.9 | 9.4 |
| Special rules for mining reclamation reserves | (1) | (1) | (1) | (1) | (1) | ..... | ..... | ..... | ..... | ..... | 0.2 |
| **Agriculture** | | | | | | | | | | | |
| Expensing of certain capital outlays | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | ..... | ..... | ..... | ..... | ..... | 0.5 |
| Capital gains treatment of certain income | (1) | (1) | (1) | 0.1 | 0.1 | 0.5 | 0.6 | 0.6 | 0.7 | 0.8 | 3.6 |
| Deductibility of patronage dividends and certain other items of cooperatives | 1.0 | 1.1 | 1.1 | 1.2 | 1.2 | −0.4 | −0.4 | −0.5 | −0.5 | −0.5 | 3.3 |

Footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1986–1990—Continued

[Billions of dollars]

| Function | Corporations | | | | | Individuals | | | | | Total 1986–90 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1986 | 1987 | 1988 | 1989 | 1990 | |
| Exclusion of cost-sharing payments | | | | | | (1) | (1) | (1) | (1) | (1) | 0.1 |
| **Commerce and housing** | | | | | | | | | | | |
| *Financial institutions* | | | | | | | | | | | |
| Exemption of credit union income | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | | | | | | 1.2 |
| Exclusion of interest on life insurance and annuity savings | | | | | | 5.7 | 6.0 | 6.3 | 6.6 | 7.0 | 27.8 |
| Excess bad debt reserves of financial institutions | 1.0 | 1.0 | 1.0 | 1.1 | 1.2 | | | | | | 5.3 |
| Merger rules for thrift institutions | 0.8 | 0.6 | 0.3 | 0.3 | 0.3 | | | | | | 2.3 |
| Special taxable income adjustment for life insurance companies | 0.9 | 1.0 | 1.0 | 1.1 | 1.2 | | | | | | 5.3 |
| Small life insurance company taxable income adjustment | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | | | | | | 0.5 |
| Tax exemption for certain insurance companies | 0.4 | 0.4 | 0.5 | 0.5 | 0.6 | | | | | | 2.4 |
| Deductions of unpaid losses of property and casualty insurance companies | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | | | | | | 1.2 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Treatment of life insurance company reserves | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | ..... | ..... | ..... | ..... | ..... | 3.2 |
| PAL accounts of mutual property and casualty insurance companies | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | ..... | ..... | ..... | ..... | ..... | 0.4 |
| *Housing* | | | | | | | | | | | |
| Exclusion of interest on State and local government bonds for owner-occupied housing | 1.5 | 1.7 | 1.8 | 1.7 | 1.6 | 0.6 | 0.8 | 1.0 | 1.1 | 1.0 | 12.9 |
| Exclusion of interest on State and local government bonds for rental housing | 1.1 | 1.3 | 1.6 | 1.8 | 2.1 | 0.5 | 0.7 | 0.8 | 0.9 | 1.0 | 11.9 |
| Expensing construction period interest and taxes for low-income housing | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.9 |
| Deductibility of mortgage interest on owner-occupied homes | ..... | ..... | ..... | ..... | ..... | 27.1 | 30.3 | 33.8 | 37.9 | 42.3 | 171.4 |
| Deductibility of property tax on owner-occupied homes | ..... | ..... | ..... | ..... | ..... | 10.2 | 11.7 | 13.2 | 15.1 | 17.1 | 67.3 |
| Deferral of capital gains on home sales | ..... | ..... | ..... | ..... | ..... | 5.9 | 6.4 | 6.9 | 7.5 | 8.0 | 34.7 |
| Exclusion of capital gains on home sales for persons age 55 and over | ..... | ..... | ..... | ..... | ..... | 2.0 | 2.1 | 2.3 | 2.5 | 2.7 | 11.6 |
| Accelerated depreciation in excess of straight-line of rental housing | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.6 | 8.8 |

Footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1986–1990—Continued

[Billions of dollars]

| Function | Corporations | | | | | Individuals | | | | | Total 1986–90 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1986 | 1987 | 1988 | 1989 | 1990 | |
| *Other business and commerce* | | | | | | | | | | | |
| Accelerated depreciation in excess of straight-line on buildings other than rental housing | 5.2 | 5.1 | 5.0 | 5.1 | 5.5 | 5.7 | 5.6 | 5.5 | 5.6 | 5.9 | 54.2 |
| Accelerated depreciation on equipment other than leased property | 17.7 | 14.8 | 13.9 | 14.2 | 14.8 | 2.6 | 2.1 | 1.8 | 1.8 | 1.8 | 85.5 |
| Amortization of business start-up costs | (1) | (1) | (1) | (1) | 0.1 | 0.3 | 0.3 | 0.4 | 0.4 | 0.5 | 2.0 |
| Capital gains other than agriculture, coal, timber and iron ore | 2.2 | 2.5 | 2.7 | 3.1 | 3.6 | 22.2 | 23.7 | 26.4 | 29.8 | 34.0 | 150.1 |
| Capital gains at death | ..... | ..... | ..... | ..... | ..... | 4.0 | 4.4 | 5.0 | 5.5 | 6.1 | 25.0 |
| Exclusion of interest on State and local government industrial development bonds | 3.6 | 3.9 | 4.1 | 4.2 | 4.2 | 0.8 | 0.9 | 0.9 | 1.0 | 1.0 | 24.7 |
| Nonrecognition of gain on property distributions in liquidation | 8.8 | 10.9 | 13.5 | 15.8 | 17.7 | −0.8 | −0.9 | −1.2 | −1.4 | −1.6 | 60.9 |
| Reduced rates on first $100,000 of corporate taxable income | 8.4 | 9.3 | 9.6 | 9.9 | 10.4 | ..... | ..... | ..... | ..... | ..... | 47.6 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Investment credit, other than ESOPs, rehabilitation of structures, leasing, reforestation, and energy property | 30.5 | 33.7 | 37.4 | 41.5 | 45.8 | 5.3 | 5.9 | 6.5 | 7.3 | 8.0 | 221.8 |
| Dividend exclusion | ..... | ..... | ..... | ..... | ..... | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 3.0 |
| Deductibility of nonmortgage interest in excess of investment income | ..... | ..... | ..... | ..... | ..... | 8.8 | 9.9 | 10.8 | 11.9 | 13.0 | 54.4 |
| Finance leasing | 0.1 | 0.1 | 0.1 | 0.5 | 0.6 | ..... | ..... | ..... | ..... | ..... | 1.5 |
| Exclusion of income from discharge of indebtedness | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | (1) | (1) | (1) | (1) | (1) | 0.5 |
| Expensing of $5,000 of depreciable business property | 0.1 | 0.1 | (1) | (1) | −0.1 | 0.1 | 0.1 | (1) | (1) | (1) | 0.2 |
| Dividend reinvestment in public utility stock | ..... | ..... | ..... | ..... | ..... | 0.3 | ..... | ..... | ..... | ..... | 0.3 |
| Expensing magazine circulation expenditures | (1) | (1) | 0.1 | 0.1 | 0.1 | (1) | (1) | (1) | (1) | (1) | 0.3 |
| Deferral of gain on installment sales | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.5 | 0.5 | 0.6 | 0.7 | 0.8 | 4.3 |
| Completed contract rules | 4.3 | 4.7 | 5.1 | 5.5 | 6.1 | 0.6 | 0.7 | 0.7 | 0.8 | 0.9 | 29.4 |
| Expensing removal costs of architectural barriers to the handicapped and elderly | (1) | (1) | ..... | ..... | ..... | (1) | (1) | ..... | ..... | ..... | (1) |
| Cash accounting, other than agriculture | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | (1) | (1) | (1) | (1) | (1) | 0.7 |
| Bad debt reserves, other than financial institutions | 0.9 | 1.0 | 1.1 | 1.2 | 1.3 | (1) | (1) | (1) | 0.1 | 0.1 | 5.6 |
| Amortization of trademark expenses | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | 0.2 |
| **Transportation** | | | | | | | | | | | |
| Deferral of tax on shipping companies | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | ..... | ..... | ..... | ..... | ..... | 1.2 |

Footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1986-1990—Continued

[Billions of dollars]

| Function | Corporations | | | | | Individuals | | | | | Total 1986-90 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1986 | 1987 | 1988 | 1989 | 1990 | |
| Exclusion of interest on State and local government mass transit bonds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | (1) | (1) | (1) | 0.1 | 0.1 | 0.8 |
| **Community and regional development** | | | | | | | | | | | |
| Five-year amortization for housing rehabilitation | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | (1) | 0.2 |
| Investment credit for rehabilitation of structures other than historic structures | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 | 3.0 |
| Exclusion of interest on State and local government bonds for private airport, dock and convention facilities | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 4.0 |
| **Education, training, employment and social services** | | | | | | | | | | | |
| *Education and training* | | | | | | | | | | | |
| Exclusion of scholarship and fellowship income | ..... | ..... | ..... | ..... | ..... | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 2.8 |
| Exclusion of interest on State and local government student loan bonds | 0.5 | 0.6 | 0.7 | 0.7 | 0.8 | 0.2 | 0.3 | 0.3 | 0.4 | 0.4 | 4.9 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Exclusion of interest on State and local government bonds for private educational facilities | 0.4 | 0.5 | 0.5 | 0.6 | 0.7 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 4.0 |
| Targeted jobs credit | 0.2 | 0.1 | 0.1 | (1) | (1) | 0.1 | (1) | (1) | ..... | ..... | 0.6 |
| Deductibility of charitable contributions for education | 0.5 | 0.6 | 0.7 | 0.7 | 0.7 | 0.8 | 0.9 | 0.8 | 0.9 | 0.9 | 7.7 |
| Parental personal exemption for students age 19 or over | ..... | ..... | ..... | ..... | ..... | 1.1 | 1.2 | 1.3 | 1.3 | 1.4 | 6.3 |
| Exclusion of employer-provided educational assistance | ..... | ..... | ..... | ..... | ..... | (1) | ..... | ..... | ..... | ..... | (1) |
| *Employment* | | | | | | | | | | | |
| Exclusion of employee meals and lodging (other than military) | ..... | ..... | ..... | ..... | ..... | 0.9 | 0.9 | 1.0 | 1.1 | 1.2 | 5.1 |
| Exclusion of contributions to prepaid legal services plans | ..... | ..... | ..... | ..... | ..... | (1) | (1) | ..... | ..... | ..... | 0.1 |
| Employee stock ownership plans (ESOPs): | | | | | | | | | | | |
| Tax credit | 2.3 | 2.6 | 1.7 | 0.7 | 0.2 | ..... | ..... | ..... | ..... | ..... | 7.6 |
| Dividend deduction | (3) | (3) | (3) | (3) | (3) | ..... | ..... | ..... | ..... | ..... | (3) |
| Nonrecognition of gain on stock sales | (3) | (3) | (3) | (3) | (3) | ..... | ..... | ..... | ..... | ..... | (3) |
| Exclusion of interest on ESOP loans | (3) | (3) | (3) | (3) | (3) | ..... | ..... | ..... | ..... | ..... | (3) |
| Cafeteria plans | ..... | ..... | ..... | ..... | ..... | 0.3 | 0.7 | 1.6 | 2.7 | 3.2 | 6.5 |
| Exclusion of rental allowances of minister's home | ..... | ..... | ..... | ..... | ..... | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.7 |
| Exclusion of miscellaneous fringe benefits | ..... | ..... | ..... | ..... | ..... | 3.3 | 3.6 | 3.8 | 4.1 | 4.5 | 19.3 |
| Deduction for two-earner married couples | ..... | ..... | ..... | ..... | ..... | 6.8 | 7.3 | 7.9 | 8.5 | 9.1 | 39.6 |

Footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1986–1990—Continued

[Billions of dollars]

| Function | Corporations | | | | | Individuals | | | | | Total 1986–90 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1986 | 1987 | 1988 | 1989 | 1990 | |
| Exclusion of income earned by benefit organizations: | | | | | | | | | | | |
| Supplemental unemployment benefit | | | | | | (1) | (1) | (1) | (1) | (1) | 0.2 |
| Voluntary employee benefit assns. (VEBAs) | | | | | | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 2.1 |
| *Social services* | | | | | | | | | | | |
| Deductibility of charitable contributions, other than for education and health | 0.5 | 0.6 | 0.6 | 0.7 | 0.7 | 11.2 | 12.6 | 11.4 | 12.2 | 13.0 | 63.6 |
| Credit for child and dependent care expenses | | | | | | 2.2 | 2.5 | 2.8 | 3.2 | 3.6 | 14.3 |
| Deduction for adoption expenses | | | | | | (1) | (1) | (1) | (1) | (1) | (1) |
| Exclusion for employer-provided child care | | | | | | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.8 |
| **Health** | | | | | | | | | | | |
| Exclusion of employer contributions for medical insurance premiums and medical care | | | | | | 23.7 | 26.4 | 29.0 | 32.2 | 35.6 | 146.9 |
| Deductibility of medical expenses | | | | | | 3.5 | 3.9 | 4.3 | 4.8 | 5.3 | 21.8 |
| Exclusion of interest on State and local government bonds for hospital facilities | 1.3 | 1.5 | 1.7 | 2.0 | 2.2 | 0.6 | 0.7 | 0.8 | 1.0 | 1.1 | 12.9 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Deductibility of charitable contributions for health | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 1.6 | 1.9 | 1.7 | 1.8 | 1.9 | 10.4 |
| Tax credit for orphan drug research | (1) | (1) | (1) | (1) | (1) | ..... | ..... | ..... | ..... | ..... | 0.1 |
| **Social security** | | | | | | | | | | | |
| Exclusion of untaxed social security benefits: | | | | | | | | | | | |
| Disability insurance benefits | ..... | ..... | ..... | ..... | ..... | 1.2 | 1.2 | 1.2 | 1.2 | 1.3 | 6.1 |
| OASI benefits for retired workers | ..... | ..... | ..... | ..... | ..... | 13.4 | 13.9 | 14.5 | 15.0 | 15.3 | 72.1 |
| Benefits for dependents and survivors | ..... | ..... | ..... | ..... | ..... | 4.0 | 4.2 | 4.4 | 4.6 | 4.9 | 22.2 |
| **Income security** | | | | | | | | | | | |
| Exclusion of untaxed railroad retirement system benefits | ..... | ..... | ..... | ..... | ..... | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 2.3 |
| Exclusion of workmen's compensation benefits | ..... | ..... | ..... | ..... | ..... | 2.4 | 2.7 | 2.9 | 3.2 | 3.5 | 14.7 |
| Exclusion of special benefits for disabled coal miners | ..... | ..... | ..... | ..... | ..... | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | .7 |
| Exclusion of untaxed unemployment insurance benefits | ..... | ..... | ..... | ..... | ..... | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 4.6 |
| Exclusion of public assistance benefits | ..... | ..... | ..... | ..... | ..... | 0.5 | 0.5 | 0.6 | 0.6 | 0.6 | 2.8 |
| Net exclusion of pension contributions and earnings: | | | | | | | | | | | |
| Employer plans | ..... | ..... | ..... | ..... | ..... | 55.1 | 61.7 | 69.1 | 77.4 | 86.7 | 350.1 |
| Plans for self-employed | ..... | ..... | ..... | ..... | ..... | 1.7 | 1.8 | 2.0 | 2.0 | 2.2 | 9.7 |
| Individual retirement plans | ..... | ..... | ..... | ..... | ..... | 13.4 | 14.5 | 15.6 | 17.1 | 18.7 | 79.3 |
| Exclusion of other employee benefits: | | | | | | | | | | | |
| Premiums on group term life insurance | ..... | ..... | ..... | ..... | ..... | 2.2 | 2.4 | 2.6 | 2.8 | 3.0 | 13.0 |

Footnotes at end of table.

## Table 1.—Tax Expenditure Estimates by Budget Function, Fiscal Years 1986–1990—Continued

[Billions of dollars]

| Function | Corporations | | | | | Individuals | | | | | Total 1986–90 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1986 | 1987 | 1988 | 1989 | 1990 | 1986 | 1987 | 1988 | 1989 | 1990 | |
| Premium on accident and disability insurance | | | | | | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.7 |
| Additional exemption for the blind | | | | | | (1) | (1) | (1) | (1) | (1) | 0.3 |
| Additional exemption for the elderly | | | | | | 2.8 | 3.0 | 3.2 | 3.4 | 3.6 | 16.0 |
| Tax credit for the elderly and disabled | | | | | | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.0 |
| Deductibility of casualty and theft losses | | | | | | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 1.6 |
| Earned income credit [4] | | | | | | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 1.7 |
| Exclusion for employer-provided death benefits | | | | | | (1) | (1) | (1) | (1) | (1) | 0.2 |
| **Veterans benefits and services** | | | | | | | | | | | |
| Exclusion of veterans disability compensation | | | | | | 1.7 | 1.8 | 1.8 | 1.9 | 1.9 | 9.1 |
| Exclusion of veterans pensions | | | | | | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 1.0 |
| Exclusion of GI bill benefits | | | | | | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| Exclusion of interest on State and local government veterans housing bonds | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 1.7 |
| **General government** | | | | | | | | | | | |
| Credit for contributions to political candidates | | | | | | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 1.4 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **General purpose fiscal assistance** | | | | | | | | | | | |
| Exclusion of interest on general purpose State and local government debt | 10.0 | 11.1 | 12.3 | 13.5 | 14.8 | 4.8 | 5.4 | 6.0 | 6.6 | 7.3 | 91.9 |
| Deductibility of nonbusiness State and local government taxes other than on owner-occupied homes | ..... | ..... | ..... | ..... | ..... | 25.0 | 28.1 | 31.2 | 34.6 | 38.6 | 157.5 |
| Exclusion and tax credit for corporations with possessions source income | 1.6 | 1.7 | 1.9 | 2.1 | 2.3 | ..... | ..... | ..... | ..... | ..... | 9.6 |
| **Interest** | | | | | | | | | | | |
| Deferral of interest on savings bonds | ..... | ..... | ..... | ..... | ..... | 0.8 | 0.9 | 0.9 | 1.0 | 1.1 | 4.7 |

**Footnotes to Table 1:**

[1] Less than $50 million.

[2] In addition, the 6¢ per gallon exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of $0.2 billion in 1986, $0.2 billion in 1987, $0.2 billion in 1988, and $0.1 billion in 1989.

[3] Estimates of these provisions are not available at this time, due to their recent enactment and the lack of historic data which might reflect the response to the incentives.

[4] The figures in the table show the effect of the earned income credit on receipts. The increase in outlays is: $1.4 billion in 1986, $1.3 billion in 1987, $1.2 billion in 1988, $1.2 billion in 1989, and $1.1 billion in 1990.

## Addendum to Table 1

### Sum of Tax Expenditure Items by Type of Taxpayer, Fiscal Years, 1986–90

[In billions of dollars]

| Fiscal year | Corporations and individuals | Corporations | Individuals |
|---|---|---|---|
| 1986 | 424.5 | 119.9 | 304.6 |
| 1987 | 460.6 | 127.5 | 333.1 |
| 1988 | 497.4 | 135.8 | 361.6 |
| 1989 | 546.1 | 147.1 | 399.0 |
| 1990 | 597.9 | 159.0 | 438.9 |

Note: These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items inlcuded in Table 1. The limitations on the use of the totals are explained in the text.

Source: Staff of the Joint Committee on Taxation.

## Table 2.—Distribution by Expanded Income Class of All Returns, Taxable Returns, Itemized Returns, and Tax Liability, at 1985 Law and 1983 Income Levels [1]

[Money amounts in millions of dollars, returns in thousands]

| Expanded income class (thousands) [2] | All returns | Taxable returns | Itemized returns | | Tax liability [3] |
|---|---|---|---|---|---|
| | | | Total | Taxable | |
| Below $10 | 33,308 | 17,033 | 1,729 | 818 | $4,027 |
| $10 to $20 | 25,240 | 24,396 | 4,872 | 4,309 | 30,042 |
| $20 to $30 | 17,348 | 17,168 | 8,017 | 7,870 | 45,963 |
| $30 to $40 | 9,958 | 9,899 | 7,155 | 7,111 | 42,599 |
| $40 to $50 | 5,535 | 5,516 | 4,608 | 4,592 | 34,475 |
| $50 to $75 | 3,539 | 3,513 | 3,242 | 3,217 | 33,763 |
| $75 to $100 | 843 | 841 | 794 | 792 | 13,847 |
| $100 to $200 | 709 | 707 | 677 | 674 | 21,522 |
| $200 and over | 220 | 220 | 215 | 214 | 31,427 |
| **Total** | **96,700** | **79,292** | **31,308** | **29,598** | **257,665** |

[1] Tax law as in effect on January 1, 1985, was applied to the 1983 level and sources of income and their distribution among taxpayers. Statistics include all returns and exclude non-filers.

[2] Expanded income equals adjusted gross income plus excluded capital gains and various tax preference items less investment interest to the extent of investment income.

[3] Individual income tax liabilities take account of the refundable portion of the earned credit but do not take account of changes made by the Deficit Reduction Act of 1984 to income averaging, the capital gains holding period, and certain other provisions.

Note: Detail may not add to total due to rounding.

## Table 3.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1985 Rates and 1983 Income Levels

[Amounts in millions of dollars, returns in thousands]

| Expanded income class (thousands) [1] | Age exemption | | Blind exemption | | Dividend exclusion | |
|---|---|---|---|---|---|---|
| | Returns | Amount | Returns | Amount | Returns | Amount |
| Below $10 | 2,934 | 413 | 17 | 2 | 1,572 | 20 |
| $10 to $20 | 3,360 | 742 | 51 | 8 | 2,565 | 50 |
| $20 to $30 | 1,547 | 441 | 46 | 9 | 2,805 | 73 |
| $30 to $40 | 712 | 259 | 23 | 6 | 2,318 | 81 |
| $40 to $50 | 399 | 195 | 14 | 5 | 1,892 | 82 |
| $50 to $75 | 360 | 197 | 4 | 1 | 1,730 | 99 |
| $75 to $100 | 125 | 82 | 1 | * | 520 | 35 |
| $100 to $200 | 131 | 93 | 3 | 1 | 481 | 38 |
| $200 and over | 47 | 36 | 1 | * | 151 | 13 |
| **Total** | **9,614** | **2,464** | **161** | **33** | **14,035** | **491** |

Footnotes at end of table.

## Table 3.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1985 Rates and 1983 Income Levels—Continued

| Expanded income class (thousands) [1] | Medical deduction | | Real estate tax deduction | |
|---|---|---|---|---|
| | Returns | Amount | Returns | Amount |
| Below $10 | 576 | 81 | 465 | 28 |
| $10 to $20 | 2,289 | 412 | 3,368 | 364 |
| $20 to $30 | 2,649 | 641 | 6,353 | 1,003 |
| $30 to $40 | 1,581 | 499 | 6,147 | 1,430 |
| $40 to $50 | 677 | 287 | 4,166 | 1,468 |
| $50 to $75 | 411 | 262 | 2,976 | 1,554 |
| $75 to $100 | 88 | 120 | 701 | 578 |
| $100 to $200 | 50 | 137 | 556 | 708 |
| $200 and over | 9 | 86 | 157 | 359 |
| **Total** | **8,330** | **2,525** | **24,888** | **7,492** |

Footnotes at end of table.

## Table 3.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1985 Rates and 1983 Income Levels—Continued

| Expanded income class (thousands) [1] | State and local income tax deduction | | State and local sales tax deduction | | Home mortgage interest deduction | |
|---|---|---|---|---|---|---|
| | Returns | Amounts | Returns | Amounts | Returns | Amounts |
| Below $10 | 420 | 11 | 599 | 16 | 452 | 63 |
| $10 to $20 | 3,525 | 323 | 4,170 | 204 | 3,064 | 994 |
| $20 to $30 | 6,815 | 1,403 | 7,441 | 626 | 5,840 | 2,956 |
| $30 to $40 | 6,142 | 2,376 | 6,812 | 889 | 5,714 | 4,113 |
| $40 to $50 | 3,988 | 2,467 | 4,477 | 841 | 3,692 | 3,770 |
| $50 to $75 | 2,687 | 2,923 | 3,093 | 838 | 2,537 | 3,824 |
| $75 to $100 | 657 | 1,296 | 725 | 304 | 574 | 1,360 |
| $100 to $200 | 532 | 2,036 | 585 | 331 | 442 | 1,325 |
| $200 and over | 146 | 2,397 | 162 | 155 | 126 | 552 |
| **Total** | **24,912** | **15,232** | **28,064** | **4,204** | **22,441** | **18,958** |

Footnotes at end of table.

## Table 3.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1985 Rates and 1983 Income Levels—Continued

| Expanded income class (thousands) [1] | Deductibility of nonmortgage interest in excess of investment income | | Charitable contributions deduction [2] | | Casualty loss deduction | |
|---|---|---|---|---|---|---|
| | Returns | Amount | Returns | Amount | Returns | Amount |
| Below $10 | 277 | 3 | 448 | 23 | 28 | 1 |
| $10 to $20 | 2,711 | 34 | 3,648 | 363 | 71 | 27 |
| $20 to $30 | 5,096 | 104 | 6,889 | 978 | 68 | 76 |
| $30 to $40 | 4,570 | 238 | 6,668 | 1,348 | 32 | 35 |
| $40 to $50 | 2,747 | 1,121 | 4,354 | 1,314 | 18 | 12 |
| $50 to $75 | 1,488 | 2,325 | 3,128 | 1,689 | 6 | 17 |
| $75 to $100 | 238 | 1,029 | 759 | 671 | 2 | 6 |
| $100 to $200 | 157 | 392 | 655 | 1,256 | 2 | 12 |
| $200 and over | 32 | 232 | 208 | 2,332 | * | 11 |
| **Total** | **17,316** | **5,477** | **26,757** | **9,973** | **226** | **197** |

Footnotes at end of table.

**Table 3.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1985 Rates and 1983 Income Levels—Continued**

| Expanded income class (thousands) [1] | Child care credit | | Earned income credit [3] | |
|---|---|---|---|---|
| | Returns | Amount | Returns | Amount |
| Below $10 | 244 | 82 | 5,735 | 2,072 |
| $10 to $20 | 980 | 483 | 844 | 60 |
| $20 to $30 | 1,452 | 504 | 5 | * |
| $30 to $40 | 1,128 | 364 | 0 | 0 |
| $40 to $50 | 742 | 241 | 0 | * |
| $50 to $75 | 360 | 134 | 0 | 0 |
| $75 to $100 | 54 | 22 | 0 | 0 |
| $100 to $200 | 27 | 10 | 0 | 0 |
| $200 and over | 5 | 2 | 0 | 0 |
| **Total** | **4,991** | **1,842** | **6,585** | **2,133** |

Footnotes at end of table.

## Table 3.—Distribution of Selected Individual Tax Expenditure Items by Expanded Income Class, at 1985 Rates and 1983 Income Levels—Continued

| Expanded income class (thousands) [1] | Political contribution credit | | Capital gains exclusion | |
|---|---|---|---|---|
| | Returns | Amount | Returns | Amount |
| Below $10 | 350 | 10 | 723 | 300 |
| $10 to $20 | 917 | 44 | 1,092 | 495 |
| $20 to $30 | 1,048 | 54 | 1,113 | 890 |
| $30 to $40 | 768 | 43 | 874 | 878 |
| $40 to $50 | 566 | 32 | 715 | 1,035 |
| $50 to $75 | 563 | 33 | 733 | 1,712 |
| $75 to $100 | 161 | 9 | 257 | 1,207 |
| $100 to $200 | 166 | 11 | 264 | 2,557 |
| $200 and over | 67 | 5 | 96 | 10,184 |
| **Total** | **4,607** | **242** | **5,866** | **19,258** |

**Footnotes to Table 3:**

*Less than $500,000 or 500 returns.

[1] Expanded income equals adjusted gross income plus minimum tax preferences (mostly excluded capital gains) less investment interest expense to the extent of investment income.

[2] This distribution is subject to substantially higher sampling variability than most of the others.

[3] Includes the refundable portion of the earned income credit.

Note: Detail may not add to total due to rounding.